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DIVISION OF WATER & WASTEWATER  
CHARLES H. HILL  
DIRECTOR  
(850) 413-6900

Public Service Commission

June 11, 1999

Mr. Martin S. Friedman, Esquire  
Rose, Sundstrom & Bentley, LLP  
2548 Blairstone Pines Drive  
Tallahassee, FL 32301

Re: Docket No. 981858-WS, Application for authority to transfer facilities of Rotonda West Utility Corporation and Certificates Nos. 565-W and 493-S in Charlotte County to AquaSource Utility, Inc.

Dear Mr. Friedman:

By now you should have received a copy of the limited-scope audit report (Audit Control No. 99-028-2-1) performed to establish rate base for purposes of the subject transfer. As noted on the first page of the report, there were no rate base transactions between the closing on December 15, 1998 and year-end. Therefore, the utility's general ledger as of December 31, 1998 was used as the basis of the "per books" information and as the effective date for all recommended adjustments.

To date, no response to the audit findings has been filed. However, a cursory review of the utility's 1998 Annual Report appears to indicate that some of the recommended adjustments were made and some were not. Due to the fact that the audit findings were available only a short time before the April 30, 1998 extension deadline for filing Annual Reports, it is possible the utility did not have enough time to fully review and implement the recommended adjustments. However, it is also possible that the utility may wish to question some of the adjustments.

Before filing a recommendation on rate base at the time of the transfer, staff is providing the utility with additional time to respond to the audit findings so a balanced recommendation can be made. To facilitate utility response, staff has summarized below which of the recommended adjustments appear to have been made. At a minimum, please ask the utility to verify this information. Where the recommended adjustments have not been made or have only been partially made, please ask the utility to provide an explanation of intent.

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**Disclosure No. 1 – Utility Sales Agreement.** This disclosure lists the non-transferred utility assets which total \$2,265,238. It also recommends the amount of the acquisition adjustment based on the net audited value of plant assets of \$7,521,230. Staff would ask that the utility confirm the value of the non-transferred utility assets. Whether or not the utility agrees with the net audited value of plant assets will depend on its response to the following audit disclosures.

**Disclosure No. 2 – Prior Rate Case Adjustments – Land.** This disclosure recommends a number of adjustments to land in service based on Commission Order Nos. 96-0663-FOF-WS and 96-0663A-FOF-WS issued pursuant to the utility's rate case in Docket No. 950336-WS. It appears that the recommended adjustments have been made. Please have the utility verify and, if appropriate, provide an explanation of intent.

**Disclosure No. 3 – Prior Rate Case Adjustments – Unsupported Plant.** This disclosure recommends the utility follow the instructions in Order No. 96-0663-FOF-WS to transfer \$86,136 in unsupported plant additions and \$3,340 in related accumulated depreciation to "Non-Utility" accounts. It does not appear that these adjustments have been made. Please have the utility verify and, if appropriate, provide an explanation of intent. Staff would note that making the adjustments does not prejudice the utility from reversing the entries in the future as long as the additions to utility plant can be supported with documentation.

**Disclosure No. 4 – Utility Master Plan.** This disclosure recommends the utility follow the instructions in Order No. 96-0663-FOF-WS to reclassify a utility master plan costing \$125,360 from a deferred asset account to utility plant in service accounts. Since these adjustments would all be to subaccounts within plant in service, it does not affect the overall account balance. However, please have the utility indicate whether the recommended adjustments have been made and, if appropriate, provide an explanation of intent.

**Disclosure No. 5 – Unsupported Plant Additions.** This disclosure recommends the utility follow the practice in the prior rate case and transfer a net of \$262,206 in unsupported plant addition reclassifications, along with related accumulated depreciation of \$8,750, from plant in service to "Non-Utility" accounts. It does not appear that these adjustments have been made. Please have the utility verify and, if appropriate, provide an explanation of intent. Again, staff would note that making these adjustments does not prejudice the utility from reversing the entries when supporting documentation can be provided.

This disclosure also recommends that a total of \$186,449 had been improperly classified as plant additions instead of expensed as incurred. The corresponding accumulated depreciation was a total of \$16,205. It does not appear that the \$186,449 net of accumulated depreciation was transferred to Retained Earnings. Please have the utility verify and, if appropriate, provide an explanation of intent.

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**Disclosure No. 6 – Treatment of Gain or Loss on Plant Retirements.** This disclosure relates to the appropriate general ledger treatment of the sale of two trucks and a trailer in 1997 amounting to \$19,600. Since there appears to have been other changes to the affected accounts, it can not be determined whether the recommended adjustments have been made. Please have the utility indicate whether the recommended adjustments have been made and, if appropriate, provide an explanation of intent.

**Disclosure No. 7 – Replacement of Permeators.** This disclosure recommends the removal of permeator purchases in excess of 100% of their replacement value during the five year life specified for this equipment in the Uniform System of Accounts. It does not appear that the recommended adjustment has been made. Please have the utility verify and, if appropriate, provide an explanation of intent.

The disclosure also recommends the utility establish a permeator sub-account on a going-forward basis using a depreciation life of five years. Please have the utility indicate whether or not it intends to follow-up on this recommendation.

**Disclosure No. 8 – Construction Work in Progress (CWIP).** This disclosure recommends the utility expense \$77,461 for a sludge processing project that will not be completed. This adjustment appears to have been made. However, the disclosure also recommends that \$52,900 in Plant Held for Future Use (PHFU) related to an uncompleted reuse wastewater project in Disclosure No. 9, below, be transferred to CWIP. This adjustment does not appear to have been made. Please have the utility verify the status of both adjustments and, if appropriate, provide an explanation of intent.

**Disclosure No. 9 – Plant Held for Future Use and Associated CIAC.** This disclosure recommends the utility reclassify \$137,585 of PHFU for two reuse projects and several expense items, reclassify \$104,268 in unsupported plant additions for both wastewater and water, and remove \$166,600 for a warehouse and related land which have been sold. It does not appear that these adjustments have been made. Please have the utility verify and, if appropriate, provide an explanation of intent.

The disclosure also recommends an imputation to CIAC and corrections to CIAC on PHFU. It appears that the corrections have been made but not the imputation of the \$27,000 for a parcel of land in PHFU previously owned by the utility at no cost, then sold, then later repurchased. Please have the utility verify and, if appropriate, provide an explanation of intent.

Except for the \$141,390 specifically excluded in the disclosure recommendation, please have the utility verify whether it intends to accompany all future transfers of PHFU to utility plant in service by a like-amount transfer of CIAC-PHFU to rate base CIAC.

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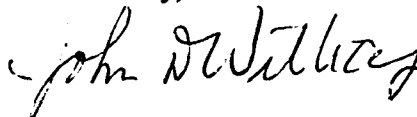
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**Disclosure No. 10 – Accumulated Depreciation and Accumulated Amortization of CIAC.** This disclosure recommends the appropriate amount for “true-up” of depreciation and amortization actually accumulated during the year. At the time of the field audit, the true-up had not been performed. It appears that the recommended adjustments for amortization expense and accumulated amortization of CIAC have been made. However, it doesn’t appear that the recommended adjustments for depreciation expense have been made. Please have the utility verify and, if appropriate, provide an explanation of intent.

**Disclosure No. 11 – Non-Utility Plant.** This disclosure is a summary recommendation on booking the non-utility adjustments in Disclosure Nos. 2 and 3 as well as a recommendation to depreciate the amount based on a twenty-five year service life. Please ask the utility to indicate whether, and what amount, of disallowed plant and offsetting CIAC the purchaser plans to carry forward as non-utility property. In addition, please have the utility indicate whether the purchaser intends to continue to depreciate and expense non-utility plant on a twenty-five years basis.

An original and five copies of the response to the information requested above should be filed by hard copy (not facsimile transmission) with the Director, Division of Records and Reporting, on or before July 9, 1999. If you have any questions, please contact Ms. Patricia Brady at (850) 413-6686.

Sincerely,



John D. Williams  
Chief, Bureau of Policy Development  
and Industry Structure

JDW:pb

cc: Division of Water and Wastewater (Chase, Groom, Brady)  
Division of Auditing and Financial Analysis (Vandiver, McPherson)  
Division of Legal Services (Cibula, Crosby)  
Division of Records and Reporting